

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 23, 2009 Through April 15, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
May 23, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for Morgan County Sheriff for the period May 23, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,759,803 for the districts for 2009 taxes, retaining commissions of \$113,469 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,524,351 to the districts for 2009 taxes. Taxes of \$120,250 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Timely Pay Taxes To Districts As Required
- The Sheriff Should Distribute 10% Add-On Fees As Required
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Tim Conley, Morgan County Judge/Executive

Honorable Mickey Whitt, Morgan County Sheriff

Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2009 Taxes for the period May 23, 2009 through April 15, 2010. This tax settlement is the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid for the period May 23, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



To the People of Kentucky
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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Timely Pay Taxes To Districts As Required
- The Sheriff Should Distribute 10% Add-On Fees As Required
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

January 31, 2011

MORGAN COUNTY
MICKEY WHITT, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 23, 2009 Through April 15, 2010

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|---|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate | \$ 138,162 | \$ 753,610 | \$ 1,183,168 | \$ 306,468 |
| Tangible Personal Property | 17,133 | 102,424 | 147,654 | 120,896 |
| Fire Protection | 3,520 | | | |
| Increases Through Exonerations | 17 | 90 | 141 | 37 |
| Franchise Taxes | 17,104 | 101,800 | 147,356 | |
| Additional Billings | 223 | 1,215 | 1,908 | 494 |
| Unmined Coal - 2009 Taxes | 284 | 1,547 | 2,429 | 629 |
| Oil and Gas Property Taxes | 1,901 | 10,370 | 16,281 | 4,217 |
| Limestone, Sand and Mineral Reserves | 110 | 601 | 943 | 244 |
| Bank Franchises | 32,923 | | | |
| Penalties | 1,478 | 7,989 | 12,451 | 3,773 |
| Adjusted to Sheriff's Receipt | (59) | 12 | 3 | 3 |
| Gross Chargeable to Sheriff | <u>212,796</u> | <u>979,658</u> | <u>1,512,334</u> | <u>436,761</u> |
| <u>Credits</u> | | | | |
| Exonerations | 1,155 | 6,285 | 9,855 | 2,647 |
| Discounts | 2,824 | 11,728 | 18,163 | 5,077 |
| Delinquents: | | | | |
| Real Estate | 11,092 | 59,107 | 92,798 | 24,037 |
| Tangible Personal Property | <u>5,799</u> | <u>34,665</u> | <u>49,974</u> | <u>46,540</u> |
| Total Credits | <u>20,870</u> | <u>111,785</u> | <u>170,790</u> | <u>78,301</u> |
| Taxes Collected | 191,926 | 867,873 | 1,341,544 | 358,460 |
| Less: Commissions * | <u>8,157</u> | <u>36,415</u> | <u>53,662</u> | <u>15,235</u> |
| Taxes Due | 183,769 | 831,458 | 1,287,882 | 343,225 |
| Taxes Paid | 176,710 | 776,846 | 1,227,864 | 342,931 |
| Refunds (Current and Prior Year) | <u>100</u> | <u>545</u> | <u>855</u> | <u>233</u> |
| Due Districts | | ** | | |
| as of Completion of Audit | <u>\$ 6,959</u> | <u>\$ 54,067</u> | <u>\$ 59,163</u> | <u>\$ 61</u> |

* And ** See Next Page

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period May 23, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on \$ 1,230,478

4% on \$ 1,529,325

** Special Taxing Districts:

| | |
|----------------------------|-----------|
| Library District | \$ 10,857 |
| Health District | 12,679 |
| Extension District | 20,255 |
| Soil Conservation District | 1,989 |
| Ambulance District | 8,287 |
| | <hr/> |

| | |
|---------------|-------------------------|
| Due Districts | <u><u>\$ 54,067</u></u> |
|---------------|-------------------------|

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Morgan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Morgan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2009 through April 15, 2010.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2009. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 18, 2010 through August 16, 2010.

Note 4. Interest Income

The Morgan County Sheriff earned \$578 as interest income on 2009 taxes. As of January 31, 2011, the Sheriff owed \$214 in interest to the school district and \$153 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$20,469 of 10% add-on fees allowed by KRS 134.119(7). As of January 31, 2011, the Sheriff owed \$20,469 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Morgan County Sheriff's Settlement - 2009 Taxes for the period May 23, 2009 through April 15, 2010, and have issued our report thereon dated January 31, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement - 2009 Taxes for the period May 23, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Timely Pay Taxes To Districts As Required
- The Sheriff Should Distribute 10% Add-On Fees As Required

The Morgan County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 31, 2011

COMMENTS AND RECOMMENDATIONS

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 23, 2009 Through April 15, 2010

STATE LAWS AND REGULATIONS:

The Sheriff Should Timely Pay Taxes To Districts As Required

KRS 134.191 states the Sheriff shall, at the time of making his report to taxing districts, pay to the districts all funds belonging to the districts. However, the Sheriff did not make timely payments to all districts. Taxes collected for the Health taxing district for March and April totaling \$6,464 were not paid. Also, taxes collected during April for the Extension taxing district in the amount of \$6,287 and Library taxing district in the amount of \$3,519 were not paid. In addition, taxes collected for all taxing districts in the amount of \$546 for franchises and oil taxes were not paid. We recommend the Sheriff comply with KRS 134.191 by timely paying taxes to the districts.

Sheriff's Response: All taxes collected are deposited into the tax account and then paid to the districts. All tax districts are being paid from the tax account for taxes collected.

The Sheriff Should Distribute 10% Add-On Fees As Required

The Sheriff collected \$20,469 of 10% add-on fees during 2009 tax collections as allowed by KRS 134.119(7). However, the Sheriff did not distribute the 10% add-on fees to his fee account. KRS 134.191 requires the Sheriff to report, by the tenth day of each month, the amount of taxes, fines, forfeitures, or other monies collected by him for the preceding month. We recommend the Sheriff pay from his 2009 tax account \$20,469 to the Sheriff's 2010 fee account, which should then be turned over to the fiscal court as additional 2010 excess fees.

Sheriff's Response: All 10% add-on fees collected are being paid to the 2010 fee account from the 2009 tax account and then paid over as additional excess fees for 2010 to the fiscal court.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of receiving, depositing, disbursing, recording, and reconciling cash being delegated to the same individual. The functions of receiving, depositing, disbursing, recording, and reconciling cash should be separated whenever possible in order to decrease the risk that the misappropriation of assets and/or inaccurate financial reporting will occur and go undetected. Since only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of errors/misstatements. We recommend the Sheriff segregate the duties of receiving, depositing, disbursing, recording and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing the daily checkout sheet to batched tax bills, comparing the daily checkout sheet to the receipts ledger and the bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, and reviewing all financial reports. The Sheriff should document his review process by initialing reports and supporting documentation.

Sheriff's Response: We have a small office that requires many duties. We feel that our office is adequately fulfilling all duties required.

